

MUSKEGON HOUSING COMMISSION
MUSKEGON, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Muskegon Housing Commission	County Muskegon
Fiscal Year End September 30, 2007	Opinion Date February 25, 2008	Date Audit Report Submitted to State March 31, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Report on Compliance and Internal Control	
Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC		Telephone Number (231) 946-8930	
Street Address 731 S. Garfield Ave.		City Traverse City	State MI
		Zip 49686	
Authorizing CPA Signature 	Printed Name Barry E. Gaudette, CPA		License Number 11050

MUSKEGON HOUSING COMMISSION
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INTRODUCTION

Independent Auditor's Report

Board of Commissioners
Muskegon Housing Commission
Muskegon, Michigan

I have audited the accompanying financial statements of the business-type activities of Muskegon Housing Commission, Michigan, as of and for the year ended September 30, 2007, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Muskegon Housing Commission, Michigan, as of September 30, 2007, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Muskegon Housing Commission
Independent Auditor's Report
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated February 25, 2008, on my consideration of Muskegon Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis comparison information on pages 3 through 11, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise Muskegon Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Muskegon Housing Commission, Michigan. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Berry E. Landolt, III, PC

February 25, 2008

**Muskegon Housing Commission
Management's Discussion and Analysis (MD&A)
September 30, 2007
(Unaudited)**

As management of the Muskegon Housing Commission we offer reviewers of this audit report this narrative discussion and analysis of the Muskegon Housing Commission's financial activities for the fiscal year ended September 30, 2007. This discussion and analysis letter of the Muskegon Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the following Financial Statements.

The combined financial statements reflect all of the Commission's federally funded programs and activities in one place. The Commission reports all its activities and programs using the Enterprise Fund type model. HUD encourages PHAs to use this accounting method as it is normally used to account for "business-type activities" - activities similar to those found in the private sector. Enterprise Fund types use the accrual method of accounting, the same accounting method employed by most private-sector businesses. Under this method, revenues and expenditures may be reported as such even though no cash transaction has actually taken place.

FINANCIAL HIGHLIGHTS

The term "net assets" refers to the difference between assets and liabilities. The Commission's total net assets as of September 30, 2007 were \$5,041,117. The net assets decreased by \$143,680, a decrease of 2.77% from the prior year.

Revenues and contributions for the Commission were \$1,944,096 for the fiscal year ended September 30, 2007. This was an increase of \$27,037 or 1.4% over the prior year.

Expenses for the Commission were \$1,995,453 for the fiscal year ended September 30, 2007. This was an increase of \$137,274 or 7.4% over the prior year.

HUD operating grants were \$1,358,080 for the fiscal year ended September 30, 2007. This was an increase of \$96,264 or 7.6% over the prior year. Capital contributions were \$178,987 for the fiscal year ended September 30, 2007. This was a decrease of \$75,628 or 29.7% from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report contains this *Management & Discussion Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. The Commission's financial statements are presented

**Muskegon Housing Commission
Management's Discussion and Analysis (MD&A)
September 30, 2007
(Continued)**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

as fund financial statements because the Commission only has proprietary funds.

Required Financial Statements

The *Statement of Net Assets* includes the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Commission creditors (liabilities). It also provides the basis for evaluating the liquidity and financial flexibility of the Commission.

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Changes in Net Assets*. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the *Statement of Cash Flows*. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established Uniform Financial Reporting Standards that require Housing Commissions to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) and is required to be included in the audit reporting package.

**Muskegon Housing Commission
Management's Discussion and Analysis (MD&A)
September 30, 2007
(Continued)**

FUND STATEMENTS

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Enterprise fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

Muskegon Housing Commission Programs:

Low Rent Public Housing: Under this program, the Housing Commission rents units that it owns to low-income elderly, disability, near elderly, and family households. This program is operated under an Annual Contributions Contract with HUD. HUD provides Operating Subsidies to enable the Housing Commission to lease these units at a rate that is based on 30% of the household income or a flat rent.

Capital Fund Program: Under this program, the Housing Commission is awarded funds each year to use for Capital needs. The Housing Commission also has the ability to use up to 100% of these funds, if need be, to supplement Operating Subsidies, since the Housing Commission is considered a "small" PHA. This program is the primary funding source for physical improvements to its properties.

Section 8 Housing Choice Voucher Program: Under this program, the Housing Commission administers contracts with independent landlords to provide housing for low-income households. These units are not owned by the Housing Commission. The Housing Commission subsidizes the family's rent via a "Housing Assistance Payment" made directly to the landlord. HUD provides subsidy to the Housing Commission to enable the Housing Commission to set the rental rates at 30% of a participant's income.

Resident Opportunity and Supportive Services: Under this program, the Housing Commission administers grants from HUD to provide services to residents which promote economic self-sufficiency for work opportunities for tenants.

FINANCIAL ANALYSIS

Net assets may serve, over time, as a useful indicator of a government's financial position. As stated in the following table, assets exceeded liabilities by \$5,041,117 at the close of the fiscal year ended September 30, 2007 an increase from \$5,184,797 in 2006. The decrease in net assets of \$143,680 was due to the change in net assets of \$51,357 for the fiscal year and prior period

**Muskegon Housing Commission
Management's Discussion and Analysis (MD&A)
September 30, 2007
(Continued)**

FINANCIAL ANALYSIS (CONTINUED)

adjustments of \$92,323.

The unrestricted net assets were \$1,006,602 as of September 30, 2007. This amount may be used to meet the Commission's ongoing obligations. At the end of the current fiscal year, the Commission is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

**CONDENSED STATEMENTS OF NET ASSETS
September 30,**

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Per Cent Change</u>
Current and other assets	\$1,171,401	\$1,295,369	\$ (123,968)	(9.65)%
Capital assets	4,034,515	4,071,068	(36,553)	(0.09)%
Total Assets	<u>5,205,916</u>	<u>5,366,437</u>	<u>(160,521)</u>	<u>(2.99)%</u>
Current liabilities	108,270	127,220	(18,950)	(14.90)%
Noncurrent liabilities	56,529	54,420	2,109	3.88%
Total Liabilities	<u>164,799</u>	<u>181,640</u>	<u>(16,841)</u>	<u>(9.27)%</u>
Net Assets:				
Invested in capital assets	4,034,515	4,071,068	(36,553)	(0.09)%
Unrestricted	1,006,602	1,113,729	(107,127)	(9.62)%
Total Net Assets	<u>\$5,041,117</u>	<u>\$5,184,797</u>	<u>\$ (143,680)</u>	<u>(2.77)%</u>

Total current assets decrease of \$123,968, was due mostly, to inventories of homes for sale decreasing by \$65,336 and mortgage receivables decreasing by \$53,627 from the prior year. Current liabilities decreased by \$18,950, in large part, due to an adjustment of \$20,949 to accounts payable for PILOT for the prior year. Long-term compensated absences increased slightly by \$2,109 over the prior year.

The largest portion of the Commission's net assets reflects its investment in capital assets (e.g. land, buildings and equipment) less accumulated depreciation. The Commission uses these capital assets to provide service and consequently these assets are not available to liquidate liabilities or other spending. Part of the net assets are restricted for the amount that HUD overfunded the Housing Choice Program.

**Muskegon Housing Commission
Management's Discussion and Analysis (MD&A)
September 30, 2007
(Continued)**

FINANCIAL ANALYSIS (CONTINUED)

While the Statement of Net Assets shows the change in financial position of net assets, the Statements of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes.

**CONDENSED STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
September 30,**

As can be seen in the following table total revenues and contributions increased by \$27,037, in part, due to a HUD grant of \$15,557 this year for a new program, Resident Opportunity and Supportive Services. Other income increased by \$11,709, in part, because of an insurance refund of \$9,000. Interest income increased slightly by \$1,885, mainly due to the interest rates being higher this fiscal year. Tenant rents decreased by \$5,648 due to incomes of the tenants decreasing and due to uncollectible tenant accounts.

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Per Cent Change</u>
Revenues and contributions				
Operating, nonoperating, capital contributions:				
Tenant Revenue	\$ 324,639	\$ 330,287	\$ (5,648)	(1.7)%
Nondwelling rent	392	1,937	(1,545)	(79.8)%
Total PHA generated Revenue	325,031	332,224	(7,193)	(2.2)%
HUD operating grants	1,358,080	1,261,816	96,264	7.6%
Capital contributions	178,987	254,615	(75,628)	(29.7)%
Other income	38,366	26,657	11,709	43.9%
Interest income	43,632	41,747	1,885	4.5%
Total Revenues and Contributions	<u>1,944,096</u>	<u>1,917,059</u>	<u>27,037</u>	<u>1.4%</u>
Expenses				
Personnel services	452,621	417,234	35,387	8.5%
Utilities	190,643	197,441	(6,798)	(3.4)%
Operations and maintenance	74,794	76,994	(2,200)	(2.9)%
Protective services	93,023	93,937	(914)	(1.0)%
Insurance	42,377	40,290	2,087	5.2%
Payments in lieu of taxes	13,249	15,098	(1,849)	(12.2)%
Other supplies and expenses	129,648	104,310	25,338	24.3%
Housing Assistance Payments	776,374	702,624	73,750	10.5%

**Muskegon Housing Commission
Management's Discussion and Analysis (MD&A)
September 30, 2007
(Continued)**

FINANCIAL ANALYSIS (CONTINUED)

Expenses (Continued)

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Per Cent Change</u>
Depreciation	<u>222,724</u>	<u>210,251</u>	<u>12,473</u>	5.9%
Total Expenses	<u>1,995,453</u>	<u>1,858,179</u>	<u>137,274</u>	7.4%
Change in net assets	(51,357)	58,880	(110,237)	
Prior period adjustments	(92,323)	244,796	(337,119)	
Beginning net assets	<u>5,184,797</u>	<u>4,881,121</u>	<u>303,676</u>	
Ending net assets	<u>\$5,041,117</u>	<u>\$5,184,797</u>	<u>\$(143,680)</u>	

Revenues:

Muskegon Housing Commission's primary revenue sources are subsidies and grants received by HUD. Please note that Capital Fund Program grants are classified as either soft cost revenue or hard cost revenue. Revenue received from HUD for fiscal year ended September 30, 2007 for Public Housing, capital contributions, Section 8 Housing Choice Voucher, and Resident Opportunity and Supportive Services increased from fiscal year ending September 30, 2006 to September 30, 2007 by \$20,636. For fiscal year ending September 30, 2007, revenue generated by the Commission accounted for \$363,397 (or 19% of total revenue), while HUD contributions accounted for \$1,537,067 (or 79% of total revenue).

Expenses:

Total Expenses for the fiscal ending September 30, 2006 were \$1,858,179 while for the fiscal year ending September 30, 2007 they were \$1,995,453. This represents an 7.4% increase in our operating costs. The expenses increased, in part, because the Housing Choice Voucher HAP (housing assistance payments) payments increased by \$73,750 over the prior year due to a higher leaseup average this fiscal year. Personnel costs increased by \$35,387 due to adding an employee for the family self sufficiency program, through a HUD grant, higher attorney cost increases associated with tenant landlord cases, higher health insurance costs, and cost of living raises.

**Muskegon Housing Commission
Management's Discussion and Analysis (MD&A)
September 30, 2007
(Continued)**

FINANCIAL ANALYSIS (CONTINUED)

The following represents changes in Federal Assistance received:

	<u>09/30/07</u>	<u>09/30/06</u>	<u>Dollar Change</u>	<u>Per Cent Change</u>
Public Housing				
Operating Subsidy	\$ 370,017	\$ 323,817	\$ 46,200	14.3%
Capital Fund Program				
Grants	244,705	254,615	(9,910)	(3.9)%
Section 8 Housing				
Choice Voucher				
Program	906,788	937,999	(31,211)	(3.3)%
Resident Opportunity				
and Supportive				
Services	<u>15,557</u>	<u> </u>	<u>15,557</u>	<u>100.0%</u>
Total	<u>\$1,537,067</u>	<u>\$1,516,431</u>	<u>\$ 20,636</u>	<u>1.4%</u>

The above chart is segregated as to the Program source of funds, not the use of funds. The subsidy for Section 8 decreased due to HUD's new method disbursing voucher monies. The subsidy for Public Housing increased mainly due funding now being on a calendar basis. The decrease in the Capital Fund Program was due fewer funds awarded based on formula, due to the fact that work projects during the fiscal year ending September 30, 2007 progressed along less rapidly than the prior year, thus utilizing less of our Capital Fund Program funding in the fiscal year ending September 30, 2007 than in the fiscal year ending September 30, 2006.

Budget Analysis:

A Low Rent Public Housing Operating Budget for the fiscal year ending September 30, 2007 was presented to and approved by the Board of Commissioners. We had to amend the budget during the fiscal year. Actual results were in line with budgeted amounts.

OPERATIONAL HIGHLIGHTS

The Muskegon Housing Commission provided the following housing for low-income elderly and low-income families:

	<u>September 30, 2007</u>	<u>September 30, 2006</u>
Low Rent Public Housing	166	166
Sec. 8 Housing Choice Voucher	164	167

**Muskegon Housing Commission
Management's Discussion and Analysis (MD&A)
September 30, 2007
(Continued)**

OPERATIONAL HIGHLIGHTS (CONTINUED)

During the fiscal year ending September 30, 2007, Muskegon Housing Commission maintained a lease-up rate of 98.0% in its Public Housing Program and a lease-up rate of 100.0% in its Section 8 program.

CAPITAL ASSETS

During the fiscal year ending September 30, 2007, our Capital Fund Program work projects included:

Rehabilitation of kitchens, added interior and exterior cameras, carpet replacement in units are being phased in, final phase of replacing stoves and refrigerators, copier, and roof vent repairs.

Capital projects planned for the next fiscal year include the rehabilitation of more kitchens, land acquisition, security, carpet replacement (phasing in), cameras (phasing in), and possible lobby furnishings.

Capital Assets - The Muskegon Housing Commission's investment in capital assets, as of September 30, 2007 amounts to \$4,034,515 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and equipment.

**CAPITAL ASSETS
NET OF ACCUMULATED DEPRECIATION
September 30,**

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>
Land	\$ 163,000	\$ 225,606	\$(62,606)
Buildings	6,164,068	5,879,760	284,308
Furniture, equipment and machinery - dwellings	53,177	42,932	10,245
Furniture, equipment and machinery - administration	275,032	280,420	(5,388)
Construction in progress	221,097	261,485	(40,388)
	6,876,374	6,690,203	186,171
Accumulated depreciation	<u>(2,841,859)</u>	<u>(2,619,135)</u>	<u>(222,724)</u>
Total	<u>\$ 4,034,515</u>	<u>\$ 4,071,068</u>	<u>\$(36,553)</u>

Capital assets decreased by \$36,553, because capital outlays of \$186,171 and depreciation of \$222,724.

**Muskegon Housing Commission
Management's Discussion and Analysis (MD&A)
September 30, 2007
(Continued)**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Housing Commission is primarily dependent upon HUD for the funding of operations as well as capital needs. Therefore, the Housing Commission is affected more by the Federal Budget than by local economic conditions. The funding of programs could be significantly affected by the Federal Budget.

Although the Housing Commission remains concerned about the future levels of HUD funding due to the state of the federal budget, we feel that we are both financially and operationally in a strong position to continue to provide safe, sanitary, and decent housing to our residents.

There are no other currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (net assets) or results of operations (revenues, expenses, and other changes).

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in its finances. Questions or comments concerning any of the information contained in this report or request for additional information should be directed to:

Yvonne Morrissey, Executive Director
1080 Terrace
Muskegon, MI 49442

FINANCIAL STATEMENTS

MUSKEGON HOUSING COMMISSION

STATEMENT OF NET ASSETS

September 30, 2007

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ASSETS

Current Assets:

Cash and cash equivalents	\$ 1,055,409
Cash-restricted	32,560
Receivables, net	8,738
Investments	66,617
Prepaid expenses	<u>8,077</u>

Total Current Assets	<u>1,171,401</u>
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Capital Assets:

Land	163,000
Buildings	6,164,068
Equipment	328,209
Construction in progress	<u>221,097</u>

	6,876,374
Less: accumulated depreciation	<u>(2,841,859)</u>

Net Capital Assets	<u>4,034,515</u>
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Total Assets	<u>\$ 5,205,916</u>
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See notes to financial statements

MUSKEGON HOUSING COMMISSION
STATEMENT OF NET ASSETS (CONTINUED)
September 30, 2007
=====

LIABILITIES and NET ASSETS

Current Liabilities:	
Accounts payable	\$ 15,531
Tenant security deposit liability	44,478
Accrued expenses	6,280
Deferred revenues	5,910
Other current liabilities	5,635
Accrued liabilities-other	<u>30,436</u>
Total Current Liabilities	108,270
Noncurrent liabilities:	
Accrued compensated absences	<u>56,529</u>
Total Liabilities	<u>164,799</u>
Net Assets:	
Invested in capital assets	4,034,515
Unrestricted net assets	<u>1,006,602</u>
Total Net Assets	<u>5,041,117</u>
Total Liabilities and Net Assets	<u>\$ 5,205,916</u>

See notes to financial statements

MUSKEGON HOUSING COMMISSION
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS

Year Ended September 30, 2007
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OPERATING REVENUES:

Dwelling rent	\$ 324,639
Nondwelling rent	<u>392</u>

Total operating revenues	<u>325,031</u>
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OPERATING EXPENSES:

Administration	503,920
Tenant services	4,893
Utilities	190,643
Ordinary maintenance and operation	113,400
Protective services	110,031
General expenses	65,225
Extraordinary maintenance	8,243
Housing assistance payments	776,374
Depreciation	<u>222,724</u>

Total operating expenses	<u>1,995,453</u>
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Operating income(loss)	<u>(1,670,422)</u>
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NONOPERATING REVENUES:

Investment interest income	43,632
Other income	38,366
Operating grants	1,358,080
Capital grants	<u>178,987</u>

Total nonoperating revenues	<u>1,619,065</u>
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Change in net assets	(51,357)
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Prior period adjustments	(92,323)
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Net assets, beginning	<u>5,184,797</u>
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Net assets, ending	<u>\$ 5,041,117</u>
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See notes to financial statements

MUSKEGON HOUSING COMMISSION
STATEMENT OF CASH FLOWS
Year Ended September 30, 2007
=====

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from dwelling and nondwelling rents	\$ 330,488
Cash payments to other suppliers of goods and services	(1,306,262)
Cash payments to employees for services	(447,937)
Cash payments for in lieu of taxes	<u>(15,098)</u>
Net cash (used) by operating activities	<u>(1,438,809)</u>

**CASH FLOWS FROM NONCAPITAL
FINANCING ACTIVITIES:**

Tenant security deposits	621
Operating grants	1,359,052
Other revenue	<u>38,366</u>
Net cash provided by noncapital financing activities	<u>1,398,039</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING
ACTIVITIES:**

Mortgage receivable receipts	7,540
Capital grants	178,987
Payments for capital acquisitions	<u>(186,171)</u>
Net cash provided by capital and related financing activities	<u>356</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Investments increased by	(2,568)
Receipts of interest and dividends	<u>43,632</u>
Net cash provided by investing activities	<u>41,064</u>

Net increase(decrease) in cash	650
Cash and cash equivalents, beginning	<u>1,087,319</u>
Cash and cash equivalents, ending	<u>\$ 1,087,969</u>

MUSKEGON HOUSING COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended September 30, 2007

=====

RECONCILIATION OPERATING INCOME(LOSS)
TO NET CASH PROVIDED BY OPERATING
ACTIVITIES:

Operating income(loss)	\$(1,670,422)
Adjustments to reconcile operating (loss) to net cash provided(used) by operating activities:	
Depreciation	222,724
Bad debt allowance adjustment	1,222
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	6,594
Prepaid expenses	(565)
Increase (decrease) in liabilities:	
Accounts payable	2,282
Accrued compensated absences	2,342
Accounts payable-PILOT	(1,849)
Deferred revenues	<u>(1,137)</u>
Net cash (used) by operating activities	<u><u>\$(1,438,809)</u></u>

See notes to financial statements

MUSKEGON HOUSING COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2007
=====

NOTE 1: Summary of Significant Accounting Policies

The Housing Commission is a Public Housing Agency created by the City of Muskegon on May 25, 1965, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide low-rent housing, under the low rent program Annual Contributions Contract for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other Federal agencies.

The Housing Commission complies with U.S. generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Housing Commission the option of electing to apply FASB pronouncements issued after November 30, 1989, except for those that conflict with or contradict a GASB pronouncement. The Housing Commission has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

1(a) Financial Reporting Entity

The Housing Commission's financial reporting entity comprises the following:

Primary Government:	Housing Commission
---------------------	--------------------

In determining the financial reporting entity, the Housing Commission complies with the provisions of GASB Statement No. 14 as amended by GASB No. 39, "The Financial Reporting Entity", and includes all component units, if any, of which the Housing Commission appointed a voting majority of the units' board; the Housing Commission is either able to impose its will on the unit or a financial benefit or burden relationship exists. There are no agencies, organizations or activities meeting this criteria.

1(b) Basis of Presentation

Financial statements of the reporting entity's programs are organized and reported as an enterprise fund and are accounted for by providing a set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Enterprise funds are used to account for business-like activities provided to its tenants. These activities are financed primarily by user charges and/or Federal funding and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes all of the Housing Commission's programs as an enterprise fund.

Following is a description of the Housing Commission's programs:

Program	Brief Description
Low Rent	Accounts for activities of the Public and Indian Housing program which HUD provides an annual subsidy to help public housing agencies (PHAs) pay some of the cost of operating and maintaining public housing units.
Housing Choice Vouchers	Accounts for activities of the Voucher program which assists very low income families, the elderly, and the disabled to afford decent, safe and sanitary housing in the private market.
Capital Fund Program	Accounts for activities of the Capital Fund which provides funds to housing authorities to modernize public housing developments.
Resident Opportunity and Supportive Services	Accounts for activities of administering grants from HUD to provide services to residents which promote economic self-sufficiency for work opportunities for tenants.

1(c) Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

1(c) Measurement Focus and Basis of Accounting (Continued)

Measurement Focus

In the financial statements, the "economic resources" measurement focus is used as follows:

The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

In the financial statements, the proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

1(d) Assets, Liabilities, and Equity

Cash and Investments

For the purpose of the Statement of Net Assets, "cash and cash equivalents" includes all demand, savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less. For the purpose of the Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value except for short-term U.S. Treasury obligations, if any, with a remaining maturity at the time of purchase of one year or less. Those investments, if any, are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Note 2(b) and 3(a).

Interprogram Receivables and Payables

During the course of operations, numerous transactions occur within individual programs that may result in amounts owed between these programs. Offsetting interprograms are eliminated for financial statement presentation.

1(d) Assets, Liabilities, and Equity (Continued)

Receivables

Receivables consist of all revenues earned at year-end and not yet received. Tenant accounts receivable, accrued interest receivable and accounts receivable from U.S. Department of Housing and Urban Development compose the majority of receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Inventories

Inventories are valued at average cost, and consist of expendable supplies held for consumption. The cost of inventories are recorded as expenditures when consumed, rather than when purchased.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission adopts a formal operating budget each year for its operating programs and on a project length basis for its capital expenditures which are approved by the Board of Commissioners and submitted to the Department of Housing and Urban Development for their approval, if required.

Estimates and Assumptions

The Housing Commission uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses.

Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) is as follows:

In the financial statements, capital assets purchased or acquired with an original cost of \$1,000 or more are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

1(d) Assets, Liabilities, and Equity (Continued)

Capital Assets (Continued)

Depreciation of all exhaustible capital assets are recorded as an allocated expense depending on the program where the asset is shown, in the Statement of Revenues, Expenses, and Changes in Net Assets, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	40 years
Building improvements	10 - 15 years
Equipment and furnishings	5 - 10 years

Compensated Absences

The Housing Commission's policies regarding vacation time permit employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as short-term and long-term liabilities based on historical trends. In accordance with the provisions of GASB Statement No. 16, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Equity Classifications

Equity is classified as net assets and displayed in two components:

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. The Housing Commission had no related debt.
- b. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

1(e) Revenues, Expenditures, and Expenses

Operating Revenues and Expenses

Operating revenues and expenses are those that result from providing services and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Non-operating revenues and expenses are those that are not operating in nature.

1(e) Revenues, Expenditures, and Expenses (Continued)

Interfund Transfers

For the purposes of the Statement of Revenues, Expenses, and Changes in Net Assets, all interfund transfers between individual programs, if any, have been eliminated.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

The Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: Stewardship, Compliance, and Accountability

The Housing Commission and its component units, if any, are subject to various federal, state, and local laws and contractual regulations. An analysis of the Housing Commission's compliance with significant laws and regulations and demonstration of its stewardship over Housing Commission resources follows.

2(a) Program Accounting Requirements

The Housing Commission complies with all state and local laws and regulations requiring the use of separate programs. The programs used by the Housing Commission are as follows:

Program	Required By
Public and Indian Housing	U.S. Department of HUD
Housing Choice Vouchers	U.S. Department of HUD
Capital Fund Program	U.S. Department of HUD
Resident Opportunity and Supportive Services	U.S. Department of HUD

2(b) Deposits and Investments Laws and Regulations

In accordance with state law, all uninsured deposits of the Housing Commission in financial institutions must be secured with acceptable collateral valued at the lower of market or par. All financial institutions pledging collateral to the Housing

Commission must have a written Depository Agreement. As reflected in Note 3(a), all deposits were fully insured or collateralized.

2(b) Deposits and Investments Laws and Regulations (Continued)

Investments of the Housing Commission are limited by state law to the following:

- a. Direct obligations of the U.S. Government or its agencies or instrumentalities to which acceptable collateral is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral.

2(c) Revenue Restrictions

The Housing Commission has various restrictions placed over certain revenue sources. The primary restricted revenue sources include:

<i>Revenue Source</i>	<i>Legal Restrictions of Use</i>
Capital Fund Program	Modernization

For the year ended September 30, 2007, the Housing Commission complied, in all material respects, with these revenue restrictions.

NOTE 3: Detail Notes on Transactions Classes/Accounts

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3(a) Cash and Investments

Deposits

The Housing Commission's policies regarding deposits of cash are discussed in Note 1(d). The table presented below is designed to disclose the level of custody credit risk assumed by the Housing Commission based upon how its deposits were insured or secured with collateral at September 30, 2007. The categories of credit risk are defined as follows:

Category 1 - Insured by FDIC or collateralized with securities held by the Housing Commission (or public trust) or by its agent in its name.

Category 2 - Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Housing Commission's name.

Category 3 - Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Housing Commission's name; or collateralized with no written or approved collateral agreement.

3(a) Cash and Investments (Continued)

Deposits (Continued)

	Total Bank Balance	Custody Credit Risk			Total Carrying Value
		Category 1	Category 2	Category 3	
Demand deposits	<u>\$1,094,596</u>	<u>\$1,094,596</u>	<u>\$</u>	<u>\$</u>	<u>\$1,087,867</u>

Investments

The Housing Commission's policies and applicable laws regarding investments are discussed in Note 1(d) and 2(b). The table presented below is designed to disclose the level of market risk and custody credit risk assumed by the Housing Commission (or public trust) based upon whether the investments are insured or registered and upon who holds the security at September 30, 2007. The categories of credit risk are defined as follows:

Category 1 - Insured or registered with securities held by the Housing Commission or its agent in the Housing Commission's name.

Category 2 - Uninsured and unregistered with securities held by counterparty's trust department or agent in the Housing Commission's name.

Category 3 - Uninsured and unregistered with securities held by the counterparty or by its trust department or agent but not in the Housing Commission's name.

	Custody Credit Risk			Carrying Amount	Fair Value
	Category 1	Category 2	Category 3		
Certificates of deposits	\$ 63,902	\$	\$	\$ 63,902	\$ 63,902
Savings	<u>2,715</u>			<u>2,715</u>	<u>2,715</u>
	<u>\$ 66,617</u>	<u>\$</u>	<u>\$</u>	<u>\$ 66,617</u>	<u>\$ 66,617</u>

3(a) Cash and Investments (Continued)

Investments (Continued)

A reconciliation of cash as shown on the combined statement of net assets is as follows:

Petty cash	\$ 102
Carrying amount of deposits	1,087,867
Investments	<u>66,617</u>
Total	<u>\$1,154,586</u>

Cash and investments:	
Enterprise activities	\$1,161,213
Enterprise activities - deposits in transit	40,000
Enterprise activities - checks written in excess of deposits	<u>(46,627)</u>
Total	<u>\$1,154,586</u>

3(b) Receivables

Receivables detail at September 30, 2007, is as follows:

Tenant accounts receivable	\$ 10,696
Allowance for doubtful accounts	<u>(1,958)</u>
	<u>\$ 8,738</u>

3(c) Capital Assets

Capital asset activity for the year ended September 30, 2007, was as follows:

	<u>Balance</u> <u>09/30/06</u>	<u>Additions/</u> <u>Transfers</u>	<u>Retirements/</u> <u>Transfers</u>	<u>Balance</u> <u>09/30/07</u>
Low Rent Program				
Land	\$ 225,606	\$	\$ (62,606)	\$ 163,000
Buildings	5,879,760	284,308		6,164,068
Furniture, equip. & machinery - dwellings	42,932			42,932
Furniture, equip. & machinery - administration	<u>270,175</u>	<u>4,857</u>		<u>275,032</u>
	6,418,473	<u>\$ 289,165</u>	<u>\$ (62,606)</u>	6,645,032
Less accumulated depreciation	<u>(2,608,890)</u>	<u>\$ (222,724)</u>	<u>\$</u>	<u>(2,831,614)</u>
Total	<u>\$3,809,583</u>			<u>\$3,813,418</u>

3(c) Capital Assets (Continued)

	<u>Balance</u> <u>09/30/06</u>	<u>Additions/</u> <u>Transfers</u>	<u>Retirements/</u> <u>Transfers</u>	<u>Balance</u> <u>09/30/07</u>
Capital Fund Program				
Building improvements	\$ 261,485	\$	\$ (261,485)	\$
Construction in progress		<u>221,097</u>		<u>221,097</u>
Total	<u>\$ 261,485</u>	<u>\$ 221,097</u>	<u>\$ (261,485)</u>	<u>\$ 221,097</u>
Housing Choice Voucher Program				
Furniture, equip. & machinery - dwellings	\$ 10,245	\$	\$	\$ 10,245
Less accumulated depreciation	<u>(10,245)</u>	<u>\$</u>	<u>\$</u>	<u>(10,245)</u>
Total	<u>\$</u>			<u>\$</u>
Combined Totals				<u>\$4,034,515</u>

3(d) Accounts Payable

Payable detail at September 30, 2007, is as follows:

Accounts payable - vendors	\$ 2,282
Accounts payable - other government-PILOT	<u>13,249</u>
	<u>\$ 15,531</u>

3(e) Accrued Expenses

Accrued expense detail at September 30, 2007, is as follows:

Accrued compensated absences-current portion	<u>\$ 6,280</u>
--	-----------------

3(f) Other current liabilities

Other current liabilities at September 30, 2007, is as follows:

Downpayment of escrows	<u>\$ 5,635</u>
------------------------	-----------------

3(g) Accrued Liabilities-Other

Accrued liabilities-other at September 30, 2007, is as follows:

Accrued FSS escrows	<u>\$ 30,436</u>
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3(h) Non-current Liabilities

As of September 30, 2007, the non-current liabilities are comprised of the following:

Accrued compensated absences - noncurrent portion	\$ <u>56,529</u>
--	------------------

3(i) Interprogram Transactions and Balances

Operating Transfers

There was a \$65,718 operating transfer from the capital fund program to the low rent program during the fiscal year ended September 30, 2007.

Interprogram Receivable/Payable

Low Rent Program	\$ 47,468
Housing Choice Voucher Program	(47,468)
	<u>\$</u>

NOTE 4: Other Notes

4(a) Employee Retirement Plan

The Muskegon Housing Commission participates in a pension plan, the Municipal Employees' Retirement System, (MERS). MERS is a Defined Benefit Program which operates within the Michigan Department of Management and Budget, Bureau of Retirement Systems. The pension covers all eligible full-time employees and requires a minimum contribution by the employee. At December 31, 2006, the date of the last completed actuarial evaluation, the Housing Commission's actuarial accrued liability for retirement benefits is \$374,917. The valuation assets available to meet this obligation are \$263,742. There is an unfunded balance of \$111,175 as of December 31, 2006. The required employer contribution is \$25,692 to meet the normal cost and the unfunded accrued liability. The minimum required monthly employer contribution as a percentage of payroll is 10.11% for general employees. There are seven active members, no vested former members, and no retirees and beneficiaries. Statistical information concerning the plan can be obtained from MERS, which is contained in their annual report.

4(b) Risk Management

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees health and life; and natural disasters. The Housing Commission manages these various risks of loss as follows:

4(b) Risk Management (Continued)

Type of Loss	Method Managed
a. Commercial liability, public officials liability, employment practice coverage, law enforcement liability, employee benefits liability, and terrorism	Purchased insurance from Housing Authority Risk Retention Group.
b. Injuries to employees (workers' compensation)	Purchased from MI Municipal League.
c. Commercial property, terrorism, blanket employee dishonesty, forgery, and auto	Purchased commercial insurance from Housing Insurance Services, Inc.
d. Health and dental	Purchased from Liberty Union Life Assurance.
e. Vision and life	Purchased from American Community Mutual.

Management believes such coverage is sufficient to preclude any significant uninsured losses to the Housing Commission. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

4(c) Commitments and Contingencies

Commitments - Construction

At September 30, 2007, the Housing Commission had the following pending construction projects in progress:

	Funds Approved	Funds Expended - Project to Date
2006 CFP	\$ 181,126	\$ 75,024
2007 CFP	184,988	-
	<u>\$ 366,114</u>	<u>\$ -</u>

Contingencies

The Housing Commission is subject to possible examination by Federal and State authorities who determine compliance with terms, conditions, laws and regulations governing other grants given to the Housing Commission in the current and prior years. No significant violations of finance-related legal or contractual provisions occurred.

4(d) Prior Period Adjustments, Equity Transfers and
Correction of Errors

Low Rent Program

Write off of second mortgage balances	\$(46,087)
Write off of cost of homes sold in prior years	(65,336)
Correct PILOT account payable as of 9/30/06	19,100
Transfer of 2004 cfp	221,703
Correction of 2004 cfp soft cost	<u>(2,328)</u>
	<u>\$ 127,052</u>

Capital Fund Program

Correction of 2004 cfp soft cost-see low rent	\$ 2,328
Close cfp 2004 to low rent	<u>(221,703)</u>
	<u>\$(219,375)</u>

SUPPLEMENTARY INFORMATION

MUSKEGON HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
BY PROGRAM

September 30, 2007

=====

C-3013	Capital
Low Rent	Fund
Program	Program
<u>14.850a</u>	<u>14.872</u>

ASSETS

Current assets:

Cash and cash equivalents	\$ 832,229	\$
Cash-other restricted		
Receivables:		
Tenants-dwelling rents	10,696	
Allowance for doubtful accounts	(1,958)	
Investments-unrestricted	66,617	
Prepaid expenses	8,077	
Due from other programs	<u>47,468</u>	
Total current assets	<u>963,129</u>	

Capital assets:

Land	163,000	
Buildings	6,164,068	
Equipment	317,964	
Construction in progress	<u>221,097</u>	
	6,645,032	221,097
Less accumulated depreciation	<u>(2,831,614)</u>	
Net capital assets	<u>3,813,418</u>	<u>221,097</u>
Total Assets	<u>\$ 4,776,547</u>	<u>\$ 221,097</u>

Housing Choice Vouchers <u>14.871</u>	Resident Opportunity and Supportive Services <u>14.870</u>	<u>Totals</u>
\$ 223,180	\$	\$ 1,055,409
32,560		32,560
		10,696
		(1,958)
		66,617
		8,077
		<u>47,468</u>
<u>255,740</u>		<u>1,218,869</u>
		163,000
		6,164,068
10,245		328,209
		<u>221,097</u>
<u>10,245</u>		6,876,374
(10,245)		<u>(2,841,859)</u>
		<u>4,034,515</u>
<u>\$ 255,740</u>	<u>\$</u>	<u>\$ 5,253,384</u>

MUSKEGON HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
BY PROGRAM (CONTINUED)
September 30, 2007
=====

C-3013	Capital
Low Rent	Fund
Program	Program
<u>14.850a</u>	<u>14.872</u>

LIABILITIES and NET ASSETS

Current liabilities:		
Accounts payable	\$ 15,531	\$
Tenant security deposit liability	44,478	
Accrued expenses	6,280	
Deferred revenues	5,910	
Other current liabilities	5,635	
Accrued liabilities-other		
Due to other programs		
	<hr/>	<hr/>
Total current liabilities	77,834	
Noncurrent liabilities:		
Accrued compensated absences	<u>56,529</u>	<hr/>
Total liabilities	<u>134,363</u>	<hr/>
Net Assets:		
Invested in capital assets	3,813,418	221,097
Unrestricted net assets	<u>828,766</u>	<hr/>
Total net assets	<u>4,642,184</u>	<u>221,097</u>
Total Liabilities and Net Assets	<u>\$4,776,547</u>	<u>\$ 221,097</u>

Housing Choice Vouchers <u>14.871</u>	Resident Opportunity and Supportive Services <u>14.870</u>	<u>Totals</u>
\$	\$	\$
		15,531
		44,478
		6,280
		5,910
		5,635
30,436		30,436
<u>47,468</u>	<u> </u>	<u>47,468</u>
77,904		155,738
<u> </u>	<u> </u>	<u>56,529</u>
<u>77,904</u>	<u> </u>	<u>212,267</u>
<u>177,836</u>	<u> </u>	<u>4,034,515</u>
		<u>1,006,602</u>
<u>177,836</u>	<u> </u>	<u>5,041,117</u>
<u>\$ 255,740</u>	<u>\$ </u>	<u>\$ 5,253,384</u>

MUSKEGON HOUSING COMMISSION
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS BY PROGRAM
Year Ended September 30, 2007
=====

	C-3013 Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 324,639	\$
Nondwelling rent	<u>392</u>	<u> </u>
Total operating revenues	<u>325,031</u>	<u> </u>
OPERATING EXPENSES:		
Administration	262,535	
Tenant services	4,893	
Utilities	190,643	
Ordinary maintenance and operation	113,400	
Protective services	110,031	
General expenses	65,225	
Extraordinary maintenance	8,243	
Housing assistance payments		
Depreciation	<u>222,724</u>	<u> </u>
Total operating expenses	<u>977,694</u>	<u> </u>
Operating income(loss)	<u>(652,663)</u>	<u> </u>
NONOPERATING REVENUES:		
Operating transfers in(out)	65,718	(65,718)
Investment interest income	32,856	
Other income	38,366	
Operating grants	370,017	65,718
Capital grants	<u> </u>	<u>178,987</u>
Total nonoperating revenues	<u>506,957</u>	<u>178,987</u>
Change in net assets	(145,706)	178,987
Prior period adjustments, equity transfers and correction of errors	127,052	(219,375)
Net assets, beginning	<u>4,660,838</u>	<u>261,485</u>
Net assets, ending	<u>\$4,642,184</u>	<u>\$221,097</u>

Housing Choice Vouchers 14.871	Resident Opportunity and Supportive Services 14.870	Totals
\$	\$	\$ 324,639
		392
		325,031
225,828	15,557	503,920
		4,893
		190,643
		113,400
		110,031
		65,225
		8,243
776,374		776,374
		222,724
<u>1,002,202</u>	<u>15,557</u>	<u>1,995,453</u>
<u>(1,002,202)</u>	<u>(15,557)</u>	<u>(1,670,422)</u>
10,776		43,632
		38,366
906,788	15,557	1,358,080
		178,987
<u>917,564</u>	<u>15,557</u>	<u>1,619,065</u>
(84,638)		(51,357)
		(92,323)
<u>262,474</u>		<u>5,184,797</u>
<u>\$ 177,836</u>	<u>\$</u>	<u>\$ 5,041,117</u>

MUSKEGON HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
BY PROGRAM

Year Ended September 30, 2007

=====

	C-3013 Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from dwelling and nondwelling rents	\$ 330,488	\$
Cash payments to other suppliers of goods and services	(502,687)	
Cash payments to employees for services	(233,753)	
Cash payments for in lieu of taxes	<u>(15,098)</u>	
Net cash (used) by operating activities	<u>(421,050)</u>	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating transfers in(out)	65,718	(65,718)
Interprogram due from(to)	91,331	(972)
Tenant security deposits	621	
Operating grants	370,017	66,690
Other revenue	<u>38,366</u>	
Net cash provided by noncapital financing activities	<u>566,053</u>	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Mortgage receivable receipts	7,540	
Capital grants		178,987
Payments for capital acquisitions	<u>(7,184)</u>	<u>(178,987)</u>
Net cash provided by capital and related financing activities	<u>356</u>	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments increased by	(2,568)	
Receipts of interest and dividends	<u>32,856</u>	
Net cash provided by investing activities	<u>30,288</u>	
Net increase(decrease) in cash	175,647	
Cash and cash equivalents, beginning	<u>656,582</u>	
Cash and cash equivalents, ending	<u>\$ 832,229</u>	<u>\$</u>

Housing Choice Vouchers <u>14.871</u>	Resident Opportunity and Supportive Services <u>14.870</u>	<u>Totals</u>
\$	\$	\$ 330,488
(803,575)		(1,306,262)
(198,627)	(15,557)	(447,937)
<u> </u>	<u> </u>	<u>(15,098)</u>
<u>(1,002,202)</u>	<u>(15,557)</u>	<u>(1,438,809)</u>
(90,359)		
906,788	15,557	621 1,359,052
<u> </u>	<u> </u>	<u>38,366</u>
<u>816,429</u>	<u>15,557</u>	<u>1,398,039</u>
		7,540
		178,987
<u> </u>	<u> </u>	<u>(186,171)</u>
		356
		(2,568)
<u>10,776</u>	<u> </u>	<u>43,632</u>
<u>10,776</u>	<u> </u>	<u>41,064</u>
(174,997)		650
<u>430,737</u>	<u> </u>	<u>1,087,319</u>
<u>\$ 255,740</u>	<u>\$</u>	<u>\$ 1,087,969</u>

MUSKEGON HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
BY PROGRAM (CONTINUED)

Year Ended September 30, 2007

=====

C-3013	Capital
Low Rent	Fund
Program	Program
<u>14.850a</u>	<u>14.872</u>

RECONCILIATION OF OPERATING INCOME
(LOSS) TO NET CASH PROVIDED BY
OPERATING ACTIVITIES:

Operating income(loss)	\$ (652,663)	\$
Adjustments to reconcile operating (loss) to net cash provided(used) by operating activities:		
Depreciation	222,724	
Bad debt allowance adjustment	1,222	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	6,594	
Prepaid expenses	(565)	
Increase (decrease) in liabilities:		
Accounts payable	2,282	
Accrued compensated absences	2,342	
Accounts payable-PILOT	(1,849)	
Deferred revenues	(1,137)	
Net cash (used) by operating activities	<u>\$ (421,050)</u>	<u>\$</u>

Housing Choice Vouchers 14.871	Resident Opportunity and Supportive Services 14.870	Totals
\$ (1,002,202)	\$ (15,557)	\$ (1,670,422)
		222,724
		1,222
		6,594
		(565)
		2,282
		2,342
		(1,849)
		(1,137)
<u>\$ (1,002,202)</u>	<u>\$ (15,557)</u>	<u>\$ (1,438,809)</u>

MUSKEGON HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended September 30, 2007
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Major - Direct Program</u>		
2007	Low Rent Public Housing	14.850a	\$ 370,017
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2007	Resident Opportunity and Supportive Services	14.870	15,557
	<u>Low Income Public Housing Major - Direct Program</u>		
2007	Housing Choice Vouchers	14.871	906,788
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2007	Capital Fund Program	14.872	<u>244,705</u>
	Total		<u>\$1,537,067</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the
accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

MUSKEGON HOUSING COMMISSION
FINANCIAL DATA SCHEDULE
Year Ended September 30, 2007

=====

FDS Line Item No.		C-3013 Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 787,751	\$
113	Cash-other restricted		
114	Cash-tenant security deposits	<u>44,478</u>	<u> </u>
100	Total cash	<u>832,229</u>	<u> </u>
	Receivables:		
126	A/R-tenants-dwelling rents	10,696	
126.1	Allowance for doubtful accounts	<u>(1,958)</u>	<u> </u>
120	Total receivables, net of allowance for doubtful accounts	<u>8,738</u>	<u> </u>
131	Investments-unrestricted	<u>66,617</u>	<u> </u>
	Other Current Assets:		
142	Prepaid expenses and other assets	8,077	
144	Interprogram due from	<u>47,468</u>	<u> </u>
	Total other current assets	<u>55,545</u>	<u> </u>
150	Total current assets	<u>963,129</u>	<u> </u>
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	163,000	
162	Buildings	6,164,068	
163	Furn, equip & mach-dwellings	42,932	
164	Furn, equip & mach-admin.	275,032	
167	Construction in progress		221,097
166	Accumulated depreciation	<u>(2,831,614)</u>	<u> </u>
160	Total fixed assets, net of accumulated depreciation	<u>3,813,418</u>	<u>221,097</u>
180	Total noncurrent assets	<u>3,813,418</u>	<u>221,097</u>
190	Total Assets	<u>\$ 4,776,547</u>	<u>\$221,097</u>

Housing Choice Vouchers 14.871	Resident Opportunity and Supportive Services 14,870	Totals
\$ 223,180	\$	\$ 1,010,931
32,560		32,560
		44,478
<u>255,740</u>		<u>1,087,969</u>
		10,696
		(1,958)
		8,738
		66,617
		8,077
		47,468
		55,545
<u>255,740</u>		<u>1,218,869</u>
		163,000
		6,164,068
10,245		53,177
		275,032
		221,097
(10,245)		(2,841,859)
		4,034,515
		4,034,515
<u>\$ 255,740</u>	<u>\$</u>	<u>\$ 5,253,384</u>

MUSKEGON HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended September 30, 2007
=====

FDS Line Item No.		C-3013 Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 2,282	\$
322	Accrued compensated absences-		
	current portion	6,280	
333	Accounts payable-other government	13,249	
341	Tenant security deposits	44,478	
342	Deferred revenues	5,910	
345	Other current liabilities	5,635	
346	Accrued liabilities-other		
347	Interprogram due to		
		<hr/>	<hr/>
310	Total current liabilities	77,834	
	Noncurrent Liabilities:		
354	Accrued compensated absences	<u>56,529</u>	
300	Total liabilities	<u>134,363</u>	
	Net Assets:		
508.1	Invested in capital assets	<u>3,813,418</u>	<u>221,097</u>
508	Total invested in capital assets	3,813,418	221,097
512.1	Unrestricted net assets	<u>828,766</u>	
513	Total Net Assets	<u>4,642,184</u>	<u>221,097</u>
600	Total Liabilities and Net Assets	<u>\$ 4,776,547</u>	<u>\$221,097</u>

Housing Choice Vouchers <u>14.871</u>	Resident Opportunity and Supportive Services <u>14.870</u>	<u>Totals</u>
\$	\$	\$ 2,282
		6,280
		13,249
		44,478
		5,910
		5,635
30,436		30,436
<u>47,468</u>	<u> </u>	<u>47,468</u>
77,904		155,738
<u> </u>	<u> </u>	<u>56,529</u>
<u>77,904</u>	<u> </u>	<u>212,267</u>
<u> </u>	<u> </u>	<u>4,034,515</u>
		4,034,515
<u>177,836</u>	<u> </u>	<u>1,006,602</u>
<u>177,836</u>	<u> </u>	<u>5,041,117</u>
<u>\$ 255,740</u>	<u>\$</u>	<u>\$ 5,253,384</u>

MUSKEGON HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended September 30, 2007

=====

FDS Line Item No.		C-3013 Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 324,639	\$
704	Tenant revenue-other	<u>392</u>	
705	Total tenant revenue	325,031	
706	HUD PHA grants	370,017	65,718
706.1	Capital grants		178,987
711	Investment income-unrestricted	32,856	
715	Other income	<u>38,366</u>	
700	Total revenue	<u>766,270</u>	<u>244,705</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	115,626	
912	Auditing fees	2,774	
914	Compensated absences	2,342	
915	Employee benefit contributions-adm.	54,910	
916	Other operating-administrative	86,883	
	Tenant services:		
922	Relocation costs	3,191	
923	Employee benefit contributions	1,702	
	Utilities:		
931	Water	25,676	
932	Electricity	119,048	
933	Gas	44,477	
938	Other utilities expense	1,442	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	32,861	
942	Ordinary maint & oper-mat'ls & other	21,214	
943	Ordinary maint & oper-contract costs	45,337	
945	Employee benefit contributions	13,988	
951	Protective services-labor	17,008	
952	Protective serv.-other contract costs	85,727	
953	Protective services-other	7,296	
	General expenses:		
961	Insurance premiums	42,377	
962	Other general expenses	3,648	
963	Payments in lieu of taxes	13,249	
964	Bad debt-tenant rents	<u>5,951</u>	
969	Total operating expenses	<u>746,727</u>	
970	Excess operating revenue over operating expenses	<u>19,543</u>	<u>244,705</u>

Housing Choice Vouchers 14.871	Resident Opportunity and Supportive Services 14.870	Totals
\$	\$	\$
		324,639
		392
		325,031
906,788	15,557	1,358,080
		178,987
10,776		43,632
		38,366
<u>917,564</u>	<u>15,557</u>	<u>1,944,096</u>
131,460	15,557	262,643
2,726		5,500
		2,342
67,167		122,077
24,475		111,358
		3,191
		1,702
		25,676
		119,048
		44,477
		1,442
		32,861
		21,214
		45,337
		13,988
		17,008
		85,727
		7,296
		42,377
		3,648
		13,249
		<u>5,951</u>
<u>225,828</u>	<u>15,557</u>	<u>988,112</u>
<u>691,736</u>		<u>955,984</u>

MUSKEGON HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended September 30, 2007
=====

FDS Line Item No.		C-3013 Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
	Expenses continued:		
	Other expenses:		
971	Extraordinary maintenance	8,243	
973	Housing assistance payments		
974	Depreciation expense	<u>222,724</u>	
	Total other expenses	<u>230,967</u>	
900	Total expenses	<u>977,694</u>	
	Other Financing Sources(Uses):		
1001	Operating transfers in	65,718	
1002	Operating transfers out		<u>(65,718)</u>
1010	Total other financing sources(uses)	<u>65,718</u>	<u>(65,718)</u>
1000	Excess (deficiency) of operating revenue over(under) expenses	(145,706)	178,987
1103	Beginning Net Assets	4,660,838	261,485
1104	Prior period adjustments, equity transfers and correction of errors	<u>127,052</u>	<u>(219,375)</u>
	Ending Net Assets	<u>\$ 4,642,184</u>	<u>\$221,097</u>

Housing Choice Vouchers <u>14.871</u>	Resident Opportunity and Supportive Services <u>14.870</u>	<u>Totals</u>
		8,243
776,374		776,374
<u>776,374</u>		<u>222,724</u>
<u>1,002,202</u>	<u>15,557</u>	<u>1,007,341</u>
(84,638)		(51,357)
262,474		5,184,797
		(92,323)
<u>\$ 177,836</u>	<u>\$</u>	<u>\$ 5,041,117</u>

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Housing Commissioners
Muskegon Housing Commission
Muskegon, Michigan

I have audited the financial statements of the business-type activities of Muskegon Housing Commission, Michigan, (Housing Commission) as of and for the year ended September 30, 2007, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated February 25, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Housing Commission's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Housing Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Housing Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted principles such that there is more than a remote likelihood that a misstatement of the Housing Commission's financial statements that is more than inconsequential will not be prevented or detected by the Housing Commission's internal control.

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*
Muskegon Housing Commission
Page Two

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Housing Commission's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Barry E. Staudt, MA, PC

February 25, 2008

**Report on Compliance with Requirements
Applicable To Each Major Program and
on Internal Control over Compliance
in Accordance with OMB Circular A-133**

Board of Housing Commissioners
Muskegon Housing Commission
Muskegon, Michigan

Compliance

I have audited the compliance of Muskegon Housing Commission, Michigan, (Housing Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Housing Commission's compliance with those requirements.

Report on Compliance with Requirements
Applicable to Each Major Program and
on Internal Control Over Compliance in
Accordance with OMB Circular A-133
Muskegon Housing Commission
Page Two

Compliance (continued)

As described in items 07-1, 07-2, and 07-3 in the accompanying schedule of findings and questioned costs, the Housing Commission, did not comply with requirements regarding eligibility, the rent reasonableness test, and the waiting list that are applicable to the Housing Choice Voucher program. Compliance with such requirements is necessary, in my opinion, for the Housing Commission, to comply with requirements applicable to that program.

In my opinion, except for the noncompliance described in the preceding paragraph, the Housing Commission, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

The management of the Housing Commission, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Housing Commission's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency*, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. I consider the deficiencies in internal

Report on Compliance with Requirements
Applicable to Each Major Program and
on Internal Control Over Compliance in
Accordance with OMB Circular A-133
Muskegon Housing Commission
Page Three

Internal Control Over Compliance (Continued)

control over compliance described in the accompanying schedule of findings and questioned costs as items 07-2 and 07-3 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

The Housing Commission's response to the findings identified in my audit are described in the accompanying action plan. I did not audit the Housing Commission's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sary E. Staudt, M.C.

February 25, 2008

MUSKEGON HOUSING COMMISSION
STATUS OF PRIOR AUDIT FINDINGS
September 30, 2007
=====

The prior audit report for the year ended September 30, 2007 contained no audit findings.

MUSKEGON HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
September 30, 2007
=====

SECTION I - SUMMARY OF AUDITOR RESULTS

1. The Auditor's report expresses an unqualified opinion on the financial statements of Muskegon Housing Commission.
2. There were no control deficiencies disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Muskegon Housing Commission were disclosed during the audit.
4. There were two reportable conditions in internal control over major federal award programs disclosed during the audit.
5. The auditor's report on compliance for the major federal award programs for Muskegon Housing Commission expresses a qualified opinion on the Housing Choice Voucher program and an unqualified opinion on the Low Rent Public Housing program.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs included:

Low Rent Public Housing program	CFDA No. 14.850a
Housing Choice Voucher program	CFDA No. 14.871
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Muskegon Housing Commission was determined to be a low risk auditee.

MUSKEGON HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2007

SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - FEDERAL AWARD FINDINGS

Housing Choice Voucher Program - CFDA No. 14.871

Finding Item 07-1: Year Ended September 30, 2007

Condition and Criteria: Required and recommended documentation is missing, incorrect, or incomplete in the tenant files.

Effect: It is difficult to determine if the tenants are eligible for the voucher or if all aspects of the program are being run correctly without proper and complete documentation.

Cause: The staff in charge of this program did not obtain 100% of the correctly completed documentation.

Population and Items Tested: We started with the fifth tenant file and selected every twentieth one after that until a total of eight files were selected to be tested from an Ad-hoc Tenant Report provided by the Housing Commission. We selected eight tenant files to test from a population of 163 tenant files to select from.

We found the following exceptions in the documentation in the tenant files:

	<u># of Exceptions</u>
1. Form HUD-50058 not in the tenant file	0
2. Privacy Act Notice for fiscal year not in tenant file or incorrect	0
3. Incorrect Verification of Income	3
4. Incorrect Verification of Expenses	1
5. Incorrect Verification of Assets	1
6. Inspection Report missing for fiscal year or was incorrect	0
7. Lease missing or incorrect	0
8. Application missing or incorrect	2
9. Copy of Photo I.D. missing	1
10. Copy of Proof of Social Security Number Verification missing	0
11. Copy of Birth Certificate missing	0
12. Annual Review not done for fiscal year or not documented	0
13. Worksheet for HUD-50058 missing or incorrect	1
14. Notice of Rent Adjustment missing or incorrect	0
15. Criminal Background Check not done, not documented, or it was in the file	0
16. Declaration of 214 Status missing or incorrect	0
17. Lead Based Paint disclosure missing or incorrect	3

MUSKEGON HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2007
=====

Housing Choice Voucher Program - CFDA No. 14.871

Finding Item 07-1 (continued):

Population and Items Tested (continued):

	<u># of Exceptions</u>
18. Check for Previous Eviction from Public Housing not done or incorrect	2
19. Request for Tenancy Approval not done or incorrect	1
20. Voucher not in file or its was incorrect	2
21. HAP Contract missing or incorrect	1
22. HAP Tenancy Addendum missing	0
23. Rent Reasonableness Test missing or incorrect	0
24. Inspection-Life Threatening Corrections made >24 hours	0
25. Inspection-Nonlife Threatening Corrections made >30 days or past extension	0
26. Proper action not taken if (24) or (25) was violated	0
27. Annual Family Composition Review missing or incorrect	0
28. No Proof of Ownership	<u>0</u>
Total	<u>18</u>

Out of a possible 224, there were 18 exceptions from this test. This represents an exception rate of 8.04%.

Auditor's Recommendation: It is recommended that the Housing Commission continue the process of correcting the tenant files where possible. It should be noted that the exception rate for this program was extremely low when compared to other audits of housing choice voucher programs that we have audited in the prior year.

MUSKEGON HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2007
=====

Housing Choice Voucher Program - CFDA No. 14.871

Finding Item 07-2: Year Ended September 30, 2007

Condition and Criteria: During testing of the tenant files and through an interview, it was discovered that there was not proper administration of the rent reasonableness testing process.

Effect: Tenants may have been charged rents that were too high.

Cause: The staff member in charge of this program performed a test of the reasonableness of the rent where required, but the process was incorrect. First, all factors required by HUD and the Housing Commission's Administrative Plan should be used in the rent reasonableness testing. Second, all of the required factors should be used in comparing the tenant's property to the unassisted properties. Finally, the data for the rent reasonableness testing should be updated in accordance to the Housing Commission's Administrative Plan.

Auditor's Recommendation: It is recommended that the staff correct the three deficiencies in the process listed above and continue to perform a rent reasonableness test when there is an increase in rent, for the initial leasing, and if there is a drop of five percent in Fair Market Rents as required by 24 CFR 982.507.

Housing Choice Voucher Program - CFDA No. 14.871

Finding Item 07-3: Year Ended September 30, 2007

Condition and Criteria: During testing of new admissions to the program, it was discovered that while there was some documentation that new admissions to the program were selected correctly from the waiting list, there was not adequate documentation of all of the new admissions tested.

Effect: Eligible tenants may not have been admitted to the program, or they may not have been admitted in the correct order.

Cause: The staff member in charge of this program did not have enough documentation to show the new admissions were selected in the correct order.

Auditor's Recommendation: It is recommended that the Housing Commission improve the documentation process by placing a copy of a current waiting list in a central file every time there is an event that results in a change in the order of the applicants on the waiting list. In addition, if new admissions are not at the top of the waiting list at the time of admission, there should be adequate documentation for anyone above them on the waiting list as to why they were skipped.

MUSKEGON HOUSING COMMISSION

ACTION PLAN

September 30, 2007

=====

Housing Choice Voucher Program - CFDA No. 14.871

Finding Item 07-1: Documentation in the Tenant Files

During the agency's fiscal year ending September 30, 2007, the Executive Director certifies that supervisors did perform quality control sampling of our HCVP files in accordance with HUD guidelines. Program file errors were noted as a result of our testing and the day-to-day manager, who has extensive Section 8 training both from her duties while employed with the MHC and at MSHDA, was required to make the necessary corrections. Most, but not all corrections were made prior to the year-end audit. Prior to and since the audit the Section 8 Manager was required to revisit and certify to her supervisors in writing the accuracy of all files in which she manages.

Supervisors will continue to monitor the program and take the necessary steps as needed to achieve desired results.

This employee has received additional training and suggestions from her supervisors on how to perform her duties with greater efficiency and accuracy.

Finding Item 07-2: Rent Reasonableness Testing

The auditor was able to show that the Rent Reasonableness Test Form developed by this agency (HUD doesn't have a prescribed form) overlooked square footage and maintenance services. Rent reasonableness tests were, however, still conducted on every property, as required. We further believe the rents proposed by landlords and approved by our office would not change once the two missing indicators are included as part of our testing.

At this time we are exploring, also at the recommendations of the auditors, contracting part of the Rent Reasonableness Determination Collection Data to a HUD approved third party source.

MUSKEGON HOUSING COMMISSION
ACTION PLAN
September 30, 2007
=====

Finding Item 07-3: Waiting List

It would be extremely helpful if HUD would develop a universal format for maintenance of the waiting list. Interpretations of how to document removals from the waiting list vary from agency to agency.

The MHC was able to show a clear trail, in my opinion, of how the waiting list was updated (including names to be removed and those approved for the update). Once that waiting list was purged, applicants (less than 40) were immediately called in and certified to receive vouchers. The Section 8 Manager was able to show her corrections in writing; but did not make the changes manually in the system as she had received instructions to do.

We still believe all applicants were properly selected from the waiting list.

HUD's prescribed indicator forms have been reviewed with both the Section 8 Manager and site Supervisor for use effective October 1, 2007. This admission's indicator will be monitored more closely for compliance.

MUSKEGON HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
September 30, 2007
=====

Electronic
Submission
Line #

		<u>Debit</u>	<u>Credit</u>
333	Accounts payable-PILOT	\$34,198	
931	Water		\$ 15,098
1104	Prior period adjustment		19,100